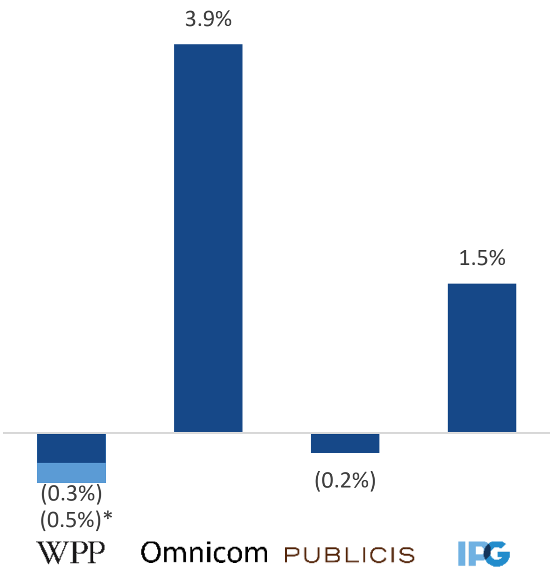
Holding companies struggle in the US but growth remains robust in the UK

H1 2017 Organic Revenue Growth



Net Sales Growth[1]

WPP, the world's largest marketing group, reported revenue growth of 13.3% to £7.40bn ($9.33bn) for the first half of 2017. However, this was largely due to an 11.4% gain from currency, and a 2.2% growth from acquisitions. Organic revenue growth over the period fell by 0.3%. The recent trend provides a starker picture for the firm with Q2 organic revenue falling by 0.8%, with a heavy 4.1% fall in July alone. Net sales, the most meaningful and accurate reflection of WPP's top line growth, decreased by 1.7% in the second quarter, and by 0.5% in the first half. Growth was fairly weak across all geographic markets, with a fall of 2.2% in North America, the company's biggest market, being the worst. UK performance was one of the few bright spots for the company, with the region showing growth in net sales of 3.8% over the half-year.

WPP suffered from the loss of key clients, including the end of a 19-year relationship with Volkswagen, and telecoms giant AT&T. Moreover, client spending pressures, particularly in the FMCG sector, further hindered growth.

New York-based **Omnicom Group** reported a fall in revenue of 0.1% to $7.38bn, comprising a comparatively strong underlying organic growth of 3.9%, a decrease in revenue from the negative foreign exchange impact of 1.3%, and a decrease in acquisition revenue, net of disposals, of 2.7%. Apart from the North American region, which saw a 0.6% growth for the six months ended June 30, 2017, Omnicom saw strong growth rates in all other markets. Latin America grew by 5.2%, the UK along with other Euro markets all grew at above 8%, and the Middle East and Africa region grew by 28.7%.

Out of their four fundamental disciplines, Omnicom's Advertising division was the best performing, experiencing growth of 5.2%, while CRM increased 2.9%, PR by 0.7%, and speciality communications by 2.7%.

Publicis posted reported revenue for the half of €4.8bn ($5.2bn), up 1.9% from €4.7bn a year earlier. Organic growth was however -0.2% over the period, which comes primarily from previous difficulties that led to a poor Q1 performance where organic growth fell by 1.2%. Q2 performance was much stronger with 0.8% organic growth coming from a number of recent client wins, including McDonald's, Bel, and HSBC. Growth from acquisitions over the period was 0.5% while growth from foreign exchange increased reported revenue by 1.6%.

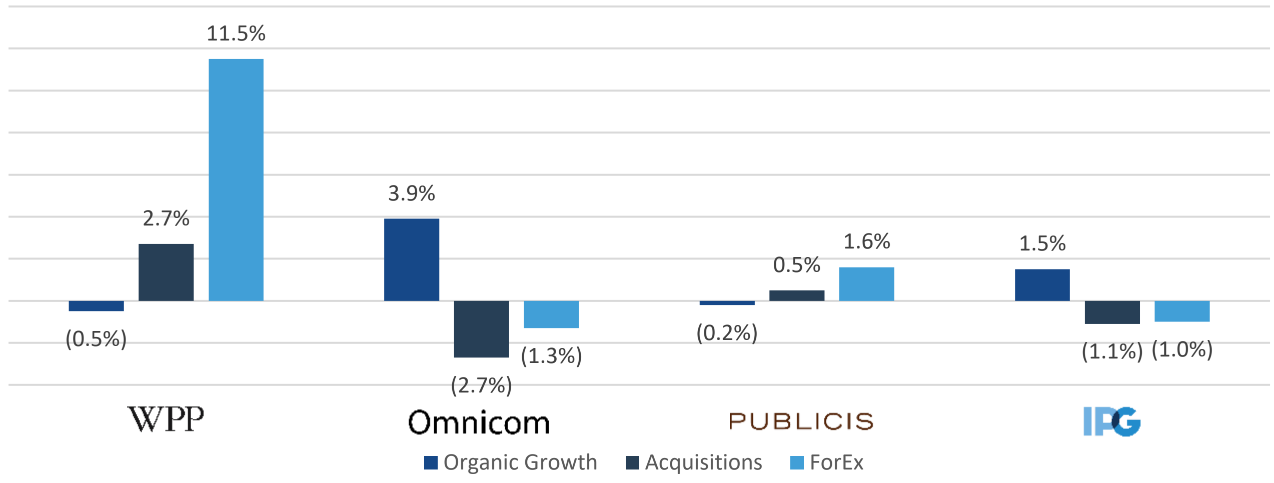
While North America saw a fall in organic growth of 2.4% over the half, the gains in account wins helped the Group return to positive growth in the region (0.2%) over the most recent quarter. Moreover, the expectation is that these gains will continue into Q3, and the second half of the year. Aside from the recent turnaround in North America, the group continues to show solid organic growth in its home region of Europe (+4.3%) over the first half of 2017, with the UK (+7.8%) and Italy (+10.5%) being the standout markets.

Interpublic Group reported a first half revenue of $3.64bn, a 0.6% decrease from the $3.66bn reported in the first half of 2016. Organic growth of 1.5% was reduced 1.1% by currency fluctuations and 1% by net acquisitions and divestures.

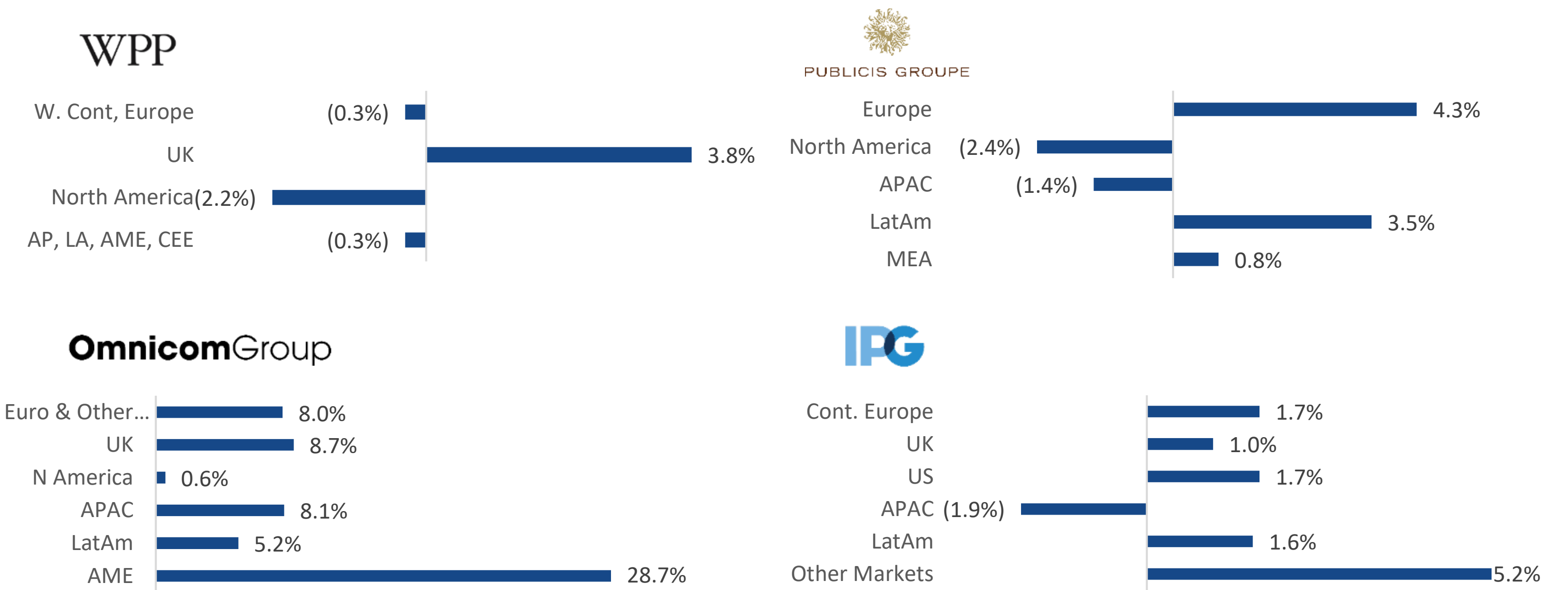
This was comprised of an organic increase of 1.7% in the US, which was 1.8% excluding the impact of lower pass-through revenues, and no organic change internationally. Revenue growth was hit negatively by acquisitions (-1.1%) and foreign exchange (-1.0%).

These results were not as strong as the growth shown by IPG in the recent quarters, where they exceeded their expectations. In terms of their agencies, Mediabrands, McCann Worldgroup, Hill Holliday, and Huge all showed positive growth momentum while in terms of client sectors, strength was seen in healthcare, along with growth in the auto and transportation, retail and government fields. These increases were offset by declines in tech and telecoms, and also a fall in financial services and consumer goods.

Revenue Growth Split H1 2017[1]



Organic revenue growth by region[1]



North America was an area of concern for all four companies with all failing to make significant gains in the region, and WPP and Publicis both experiencing negative growth. This is possibly a result of the uncertain political climate with the Trump administration failing to implement the anti-regulatory, infrastructure, and tax-reduction programmes that were promised. Moreover, the recent disbanding of the President's manufacturing and business councils further add to the uncertain outlook that companies face.

Recent strong economic performance in Europe contributed to the holding companies doing relatively well in the region, with it being one of the best performing areas for each of the firms. Publicis (4.0%) and Omnicom (8.0%) showed strong growth in particular. Perhaps more surprising was performance in the UK despite the uncertain economic and political outlooks stemming from Brexit with WPP (+3.8%), Publicis (+7.8%), and Omnicom (+8.7%) all performing very strongly.

No clear trend emerged from the other regions with a high amount of variance shown in the performance of the four companies in Asia-Pacific, Latin America, and the Middle East.

Outlook

Omnicom enjoyed the strongest organic growth in H1 of the four companies, showing positive growth in all sectors, and in all disciplines in the first half of 2017. CEO John Wren was pleased with their performance for the quarter, and the first half of the year, commenting that "they were well positioned to deliver on their internal targets for the full-year 2017."

WPP's second quarter growth rates missed forecasts by a considerable distance, and as a result the company cut its full-year growth forecast for revenue and net sales to between zero and 1% meaning that the company is facing its worse year in a decade. CEO Sir Martin Sorrell provided a bearish outlook for the firm, and highlighted political issues stemming primarily from the Trump administration, global economic uncertainty, and digital disruption as three of the major challenges going forward for the firm.

IPG CEO Michael I. Roth feels that "while client spending in the quarter reflected increased caution", he doesn't see this evidence of a broad-based economic downturn. This, along with long-standing investments in talent, digital expertise, and in "leading edge programs that foster innovation" makes him confident that the firm will be able to achieve the low end of their 3-4% organic growth target for the year.

New Publicis CEO Arthur Sadoun is confident that Publicis can overcome their challenges going forward, and now sees real progress developing from "The Power of One" made in 2015, aiming to give clients seamless access to the whole suite of Publicis's services. While organic growth for the half of negative 0.2% seems poor on the surface, large client wins such as P&G UK, Molson Coors, Dell, and McDonald's indicate strong momentum, and the benefits of the reorganization which started 18 months ago. Sadoun feels that while the start to the year has been encouraging, organic growth is their priority and there is a lot still to be done.

About Ciesco

Ciesco is a boutique corporate finance advisory firm, specialising in the digital, media, marketing and technology sectors. Ciesco advises clients on mergers & acquisitions and corporate strategy.

Notes:
Source: All data obtained from WPP, Omnicom, Publicis and Interpublic Group of Companies' H1 interim reports and presentations.

Organic Growth: the year-on-year increase or decrease in revenue from the prior period, excluding the FX impact and net acquisition revenue

1: For WPP, net sales figures and organic net sales growth are used rather than revenue and organic revenue growth, as they show underlying trends more accurately, given the increase in both online media buying as principal together with pass-through costs for data investment management.

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